Religare Enterprises Limited

Q1 FY14 earnings conference call

Friday, August 02, 2013 at 03:30pm IST

Kishore Belai : Good afternoon everyone and welcome to our Q1 FY14 earnings conference call. We have with us on this call today :

- Mr. Shachindra Nath – Group CEO,
- Mr. Anil Saxena – Group CFO,
- Mr. Sunil Garg – Head of Group Treasury,
- Mr. Kavi Arora – Managing Director and CEO Religare Finvest,
- Mr. Basab Mitra – CEO Capital Markets and Wealth Management,
- Mr. Saurabh Nanavati – Managing Director and CEO Religare Invesco Asset Management and
- Mr. Anuj Gulati – Managing Director and CEO Religare Health Insurance.

Before we start the proceedings, I would like to mention that certain statements that may be made on this call may be forward-looking statements and we do not undertake to publicly update them. A statement in this regard has been included in the presentation.

On this call, Mr. Nath will first give you an update on recent developments in the company and the company's performance for the quarter. We will subsequently open the lines for Q&A. I now turn the call over to Mr. Nath.

Shachindra Nath : Thank you Kishore. Good afternoon everybody and thank you for joining us on this call. I hope you have been able to study our results presentation which has been uploaded on our website. Before I review the performance of the business for the quarter let me give you an update on our banking licence application.

As you may know Religare Enterprises has submitted an application to the Reserve Bank of India for a banking licence. We are proposing to convert our NBFC Religare Finvest Limited into a Bank. Our intent to convert the NBFC into a bank is based on very sound strategic reasoning:

- In our view, given that Religare has presence in every vertical of financial services activity in India a bank would allow us to serve our customer whether they are rural, retail, mass affluent, SME or corporate in a very holistic manner.
- Secondly, NBFCs today are largely wholesale funded and so is RFL. While we do mobilize debt from retail market from time to time the contribution of retail funding in the overall mix is quite small especially as our size keeps increasing, it is necessary for us to diversify our fund base as much as possible so that there is greater stability and head room for growth.

While we will have to make some short term sacrifices, we are convinced that over a longer period, converting Religare Finvest into a bank is the best path for Religare Finvest and for Religare Enterprises as its largest shareholder. Having said that, we genuinely believe that Religare in its current form and construct would continue to grow and deliver best results to all its stakeholders.

Let me now turn to the presentation:

The first section provides a brief overview of Religare Enterprises, its functions and its portfolio of operating companies. To summarize:

Religare Enterprises is a non-operative holding company set-up with the objective of building an integrated financial services platform through its portfolio companies engaged in various financial services business. The portfolio companies are managed by their respective CEOs and management teams on a day to day basis and REL’s role comprises of:

- Providing capital to the portfolio companies
- Ensuring the Brand and Group ethos are safeguarded
- Determining Governance Structures, Risk Management and Control mechanisms for the portfolio companies and
- Undertaking performance management

REL’s primary objective is to ensure that portfolio companies create equity value and REL will steer its portfolio companies in such a manner as will maximize the value creation.

Let me now turn to the consolidated of financials of Religare Enterprises – covered on slide 6 to 8.

- Revenue for Q1FY14 is down 6% quarter-on-quarter to ₹7,986 million. Historically the January to March quarter has been the strongest for the life insurance business since it coincides with the close of the financial year and the base effect from this seasonality contributed to part of the decline in revenue in the April to June quarter. The rest of decline came about as a result of the planned rebalancing of our book in the lending business and softness in the retail broking business partially offset by growth in Health Insurance and the Global Asset Management.
- Our normalized PBT that is Profit before Tax excluding exceptional and one-off items stood at ₹142 million for Q1FY14 as against ₹188 million in the previous quarter or a decline of ₹46 million, as a result movements in the PBT across various businesses with largely offsetting effects.
- Normalized Profit after Tax for Q1FY14 was negative at ₹270 million as against a negative amount of ₹222 million in the previous quarter.

We have reported an exceptional item in Q1 that I would like to explain. As you are aware Religare Capital Markets has been deconsolidated from Religare Enterprises's financials in view of the long term funding arrangement that company has entered with RHC Holding Private Limited, a promoter group company but the outstanding borrowing at that point of time amounting to ₹11.2 billion continued to be REL's responsibility. REL was obligated to fund this liability in the eventuality of the liquidity requirement by RCML and its subsidiaries to discharge its outstanding borrowing as of September 30, 2011, and this commitment has been disclosed as a contingent liability in the financial statement of the company as at 31 March, 2012. REL has discharged part of its obligation amounting to ₹8.1 billion towards the end of FY13 and during Q1FY14, REL made a further investment of ₹496 million in RCML discharging its liability to that extent. REL has made full provisions against this investment as a matter of prudence and in line with the principle of conservatism; as and when we realise value on this investment, the provision would be reversed. REL's unpaid contingent liabilities towards RCML now stand reduced to ₹2.6 billion.

Let me now move to the third section which contains a brief update on each of our portfolio companies, starting from slide 10:

- **Religare Finvest Limited,** which houses our **Lending Business,** had undertaken the rebalancing of its liability profile and consolidation of its balance sheet through most of the last financial year; this exercise is now complete. The lending book stood at ₹96.4 billion as at June 30, 2013. Core NIM declined by 16 basis points to 3.86% for the quarter on the back of a run off on some higher yielding assets. Opex to ANR ratio for the quarter stood at 2.28%. There has been some stress in certain pockets and during the quarter we did see an increase in delinquencies, as assessed on a 90-day basis, with Gross and Net NPA rising to 1.94% and 1.26% respectively. We experienced higher delinquencies from customers operating in a few industries, namely Agri-processing, Auto Ancillaries, Textiles and Computers & Peripherals including Telecom Equipment and in a few geographic clusters, namely, Delhi, North Gujarat, Mumbai and Bangalore. Furthermore, there have been a few large accounts that also contributed to the increase in delinquencies.

As a founding philosophy, RFL has pursued secured business and today over 90% of our portfolio is secured. We have reviewed the security cover for each of the affected accounts and continue to be adequately covered. We have initiated recovery actions and in fact, there has already been good progress in the month of July. We are positive that there will be early resolution and the delinquency position will improve substantially by the end of the current quarter.

It is noteworthy that on a 180-day basis Gross and Net NPAs have actually declined to 0.83% and 0.42% respectively. However, we make provisions in our books based on the 90-day performance and therefore our financials reflect a conservative picture.

Turning to the financial results, RFL achieved revenue of ₹4,876 million in Q1FY14, lower by 11% QOQ. The decline in revenue is attributable to multiple factors – a decline in the realised yields, lower asset base on a weighted average basis and a decrease in treasury income. However, PBT was marginally higher QOQ at ₹577 million while PAT improved to ₹395 million.

- Our **Retail Broking** business is operated from **Religare Securities Limited and Religare Commodities Limited**. In the equity market, while overall turnover showed significant growth, this was almost entirely concentrated in the Options segment while Cash Equities declined in absolute terms QOQ. Given our mix of business and client segments, our market share in equities declined QOQ to 1.7%. In Commodity Broking too, we experienced a small fall in our market share. Consequently, our revenue for Q1FY14 declined 15% QOQ to ₹901 million and Profit Before Tax was ₹5 million. We continue to focus on improving the quality of business notwithstanding some quarterly ups and downs.

- **Religare Capital Markets Limited** continues to diligently execute its strategy of creating a sustainable platform by keeping costs in check and focussing on providing exceptional client service. As at June 30, 2013, the business was empanelled with 624 institutional investors and had active coverage of 250 stocks globally.

As you know, we do not consolidate the financial statements of RCML with REL since 1st October 2011, but the business continues to remain operationally integrated with the rest of Religare.

- In **Religare Macquarie Wealth Management Limited**, our **Wealth Management Joint Venture**, AUM stood at ₹27.4 billion as at June 30, 2013, with year-on-year improvement in Relationship Manager productivity of 36%. New initiatives are underway to expand the product proposition of the platform and drive future revenue. The focus is on nurturing and retaining the high quality wealth advisor base. The business continues to hold costs at sustainable levels.

  As I had updated you on the last call, we have operationally brought the retail broking, capital markets and wealth management businesses under one CEO with a view to generating synergies across the platform. We are already seeing positive signs from this approach and hope to accelerate growth in all three businesses.

- **Religare Invesco Asset Management Company Private Limited**, which operates our **India Asset Management business,** had average Mutual Fund AUM of ₹138 billion during the quarter. We are already seeing uplift in the business from the induction of Invesco as a partner; in Q1FY14, we have signed an agreement to manage a US$ 120 million offshore fund.

- In **Religare Global Asset Management**, we are building a multi-boutique Alternative Asset Manager. The first affiliate we had acquired, namely Northgate Capital, has successfully raised substantial new funds over the last 15 months. I am pleased to report that the second affiliate, Landmark Partners, is in the process of raising its first fund since we acquired it and is seeing good traction with investors. The success achieved by both these funds in an otherwise challenged environment is a reflection of their outstanding capabilities and track record within the investor community. We believe that our strategy of being extremely selective in the asset managers we acquire has been validated.

- **Religare Health Insurance Company Limited,** our **Health Insurance** venture**,** which commenced operations in July 2012, is tracking slightly above plan. It has generated Gross Written Premium (GWP) of ₹514 million in Q1FY14 and cumulative GWP of ₹902 million in first four quarters of operations. It provided health cover to over 560,000 lives as of 30 June 2013. The company has rapidly expanded the hospital network which has increased to over 2,100 as at June 30, 2013. We will continue to roll this business out as per plan through the current year.

- **AEGON Religare Life Insurance Company Limited**, our **Life Insurance JV**, continues to build its franchise with an increase in the customer base to 279,000 customers. We continue our efforts on repeat sales and use of non-conventional distribution channels. The business had launched an Assured Returns Plan in Q4FY13, which is resonating well with customers. Traction in sales continues for the plan with support from outdoor presence in 20 cities

  As you know, our investment in the JV is protected and we are guaranteed a minimum return by AEGON, while any upside in the equity value will accrue to us. As I had reported on the last call, we have recently renegotiated our agreement with AEGON whereby the return guaranteed has been enhanced for capital contributions beyond the initially agreed threshold.

In conclusion, I'd like to reiterate that REL is focussed on generating equity value by providing capital and direction to its portfolio of operating companies. I hope that my reporting the performance of the portfolio companies allows you to make an assessment of the underlying operations and strength of the businesses.

With that I come to the end of my opening remarks. The senior management of REL, our portfolio companies and I would be glad to address any queries that you may have.

Kishore Belai : Operator, you can now open the lines for Q&A.

Moderator : Thank you. Ladies and Gentlemen we will now begin with the question and answers session. We have the first question from the line of Ritesh Nambiar from UTI Asset Management Company. Please go ahead.

Ritesh Nambiar : I just had a question on the last point that Mr. Shachindra Nath mentioned. Are the enhanced terms with AEGON Religare expected to flow in a quarter wherein the CIC license comes, so just wanted to know what kind of enhancement could be actually projected in the same?

Shachindra Nath : Ritesh, Where have you read this?

Ritesh Nambiar : Actually it is mentioned in the notes to accounts in the fourth note where the compounded return in excess of investment would be recognized.

Shachindra Nath : Ritesh, as of today all the accumulated minimum return which has been guaranteed by AEGON does not flow into our books of accounts. But once the status of Religare Enterprises changes from a registered NBFC to CIC, the entire accumulated income of the guaranteed return would flow into our P&L account.

Ritesh Nambiar : As of now - ₹465 crores is a kind of accumulated losses. So what kind of upside can you expect because right now the number is zero in your books?

Shachindra Nath : Our investment over a period of time into our life insurance venture is around ₹540 crores so all that plus accumulated interest on that would flow into our account one time and then subsequently as and when we make investment accordingly it would start flowing into accounts.

Anil Saxena : Ritesh, you mentioned about the loss figure of ₹465 crores, which we do not consolidate because in any case we have full capital protection and the upside. What we are talking about is apart from the capital protection, the upside will flow into business.

Ritesh Nambiar : Sure, the second is regarding one of the smaller entities, Milestone Religare Advisors which you are planning to sell. So what are the terms of the sale, if you could disclose?

Shachindra Nath : Milestone Religare Advisors which was the joint venture between Religare and Milestone, 50% of the equity interest of Milestone has been acquired by Quadria at some value. We have agreed that our 50% stake will also be sold to them and the consideration for that is being evaluated. But it should be at least equal to what they have paid to Milestone.

Ritesh Nambiar : Coming to the NBFC business just as you mentioned there has been some stress, if I just look into the zero DPD or 30 DPD buckets the collection efficiency has sharply dropped and I just wanted to have a color on the same because if I compare with your peer performance the slippage is around 150 odd basis but in your case it's seems slightly on higher side, so if you could just help me out.

Kavi Arora : Basically you are right, there is an increase in NPAs which is what Shachin also has reported in his opening remarks and if you see there are two or three factors contributing to that.

A) Obviously there are some lumpy accounts which have moved out
B) there are the entire transportation and infrastructure assets which have been showing stress in this and we have seen the stress further building on those assets.

But what we have also mentioned already is that there are two things

1) 90% and above are all secured assets and

2) when we look at past dues resolution in this quarter, we have already seen some great results in July and we are confident that in this quarter we will see a decline back to the levels that we were at in March. Typically it also so happens in post-March, in April-May that there is a general trend in the rise in delinquency.

Ritesh Nambiar : So the improvement could be to the extent of March quarter which you have mentioned?

Kavi Arora : We are confident of bringing it down from where it is in the direction of where the March numbers are.

Shachindra Nath : Ritesh, Where have you looked at the 30 day number?

Ritesh Nambiar : Actually you separately report the RFL number in separate presentation.

Shachindra Nath : In the investors presentation there is no 30 days number, we report only 90 days and 180 days.

Ritesh Nambiar : Just one more question on RFL, the other corporate loan book which is mentioned - if I tally your 90 days DPD versus the gross NPA which is actually the figure of 230 and 192 – is the residual 38 coming from the ICD book?

Kavi Arora : No it is spread across various assets. As we said we don't we don't see any stress coming from that book, it is spread across commercial asset and as I said all our transportation and infrastructure assets and in SME lending where it is spread across some segments like auto ancillary, textiles, and computer peripherals.

Ritesh Nambiar : No where I am coming into is that DPD computation that you have shown in your operating book, ex of the ICD has a ₹192 crores of 91 days, but your gross NPA is ₹230 crores so ₹38 crores differential is what I was referring to.

Kavi Arora : I will have to check the numbers that you are referring to.

Shachindra Nath : Ritesh these numbers are not in here so you have some separate sets of numbers which you are looking at it, we can separately have a discussion.

Ritesh Nambiar : Sure, and lastly sir just on the realization fall on Religare Finvest wanted to know why the promoter funding book has a realization which is 230 basis higher than the normal LAS book which you run. What kind of promoters are these and the shares which are being pledged on the promoter funding side?

Kavi Arora : See it's a combination, any way the promoter financing business has higher yielding asset vis-a-vis loan against shares. Secondly, they are spread across various promoters I would say 40 odd accounts. The cover is in the range of 2x to 3x, in fact 250% is an average cover that you have in this book.

Shachindra Nath : So simple question is that, risk is priced differently than your normal LAS book.

Ritesh Nambiar : No where I am coming from in this is that the cover is higher than the LAS book, but yields are much higher

Shachindra Nath : That is the nature of it. That's the way you underwrite it. That's why I am saying that risk is underwritten at higher price. That is the pricing you do for that product.

Moderator : Thank you. The next question is from the line of Sagar Pandya from Citibank. Please go ahead.

Sagar Pandya : I just wanted to ask a question on Religare Securities Limited. We are seeing some pressure in the operating profit from the past few quarters. So I would want to know your take on it Sir. Also, how soon are we expecting it to come back on a positive side.

Basab Mitra : Your question is what are we going to do to bring ourselves back at operating profit level?

Shachindra Nath : Probably he is asking when the markets will come back.

Basab Mitra : Let me give just give some colour on the business. I think you should make a note of it, in the last quarter we had an exceptional gain in our numbers. So like-to-like comparison would be inappropriate. We are profitable as we speak now. The profitability levels can obviously improve but we don't see any improvement in the market sentiment in the coming period. We have also made a significant reduction in risk appetite as a result of which we have moved away from certain segments of business which we believe could create risks for ourselves and for our clients and that is also showing up in the loss of market share which we have given up very much strategically. So I think we are doing a number of actions in the coming quarters on trying new acquisition, re-launch of our online platform and re-pricing our book. A combination of which I think will take us significantly back in to the profitability area. But bear in mind this is a cyclical business. Our objective now is to keep our head over the water and continue to build our new capability that we need to build and capitalize on the market when market comes back. When markets will come back is the question I guess I will not be able to answer. But we don't see that happening in the immediate period.

Shachindra Nath : Just to add on what Basab said I think strategically the way we think is that distribution business like Religare Securities is quite important as a portfolio company for Religare Enterprises. Market dynamics in the construct of this in last 3 years and specifically in last 5 years has dramatically moved and we are constantly working in terms of remodeling this business. Among those are actions of combining or aligning this business with wealth management platform and moving towards more as an advisory business versus just as an execution platform in mid to long term would pay off the results. But obviously some of these are purely market dependent. Some of these are structural changes and what we are strategically doing would pay off. But this journey is slow and would take time.

Sagar Pandya : Just wanted to ask one more question how soon can we expect these structural changes and realignment to get completed, is it likely within this financial year itself?

Basab Mitra : So I think most of the work has already happened and lot of restructure realignment has happened. If you actually go back and look at it structurally you will see that fee income as a percentage of total income has increased significantly. Our overall balance sheet has been actually coming down, some of the changes on the wealth management are recent and the benefits on that will pan out progressively. We are making a number of investments in technologies which will also pan out through the rest of the year. But I think this is a business which is in transition and is transitioning as Shachin mentioned from pure execution platform to an advice based one and over a period of time to a wealth platform and that transition will happen over the next 18 to 24 months. We expect a lot of the action to start paying off this fiscal so you should see uptick in performance from here on for the rest of the year.

Moderator : Thank you. We have the next question from the line of Kajal Gandhi from the line of ICICI Securities Limited, please go ahead.

Kajal Gandhi : Wanted to understand on your loan book break up; why are we saying like SME loan against property and SME CE or CV Vehicles, because SME loan against property means it is SME corporate loan and you have collateral of properties?

Kavi Arora : You have answered yourself that the loan in SME book is assessed on the cash flow generated by the business underlying to which we are giving the loan. When we say SME LAP, it basically represents the collateral in the form of property which is supporting the transaction.

Kajal Gandhi : Because generally what happens in most cases is that you have the collateral - property, machines and everything. So we don't have any individual LAPs in your book?

Kavi Arora : No, We don't. We lend primarily to the business as I said that is the core of our underwriting philosophy. You assess the cash flow generated in the business and collateral only is covered at the back. Primarily it is the loan to the business not to the individual.

Kajal Gandhi : And what about SME CE and CV finance what do we mean by that?

Kavi Arora : It is basically loans against those assets, commercial vehicles, construction equipment specific assets and where the charges against those assets are funded.

Kajal Gandhi : Is it that on this existing CE and CV assets you are giving financing or for what are we giving financing?

Kavi Arora : Largely it is against the purchase of new assets, but for your information we have mentioned that earlier seeing the challenge in the construction equipment industry we have stopped acquiring new assets in January 2012 and it is a rundown portfolio we are not adding any new business there. Commercial vehicles also had substantially slowed down whole of last year and as we speak, starting Q4 we have already stopped acquiring new commercial vehicles assets as well. We continue to see the stress in that business in the market so we need to shift our focus on the loan against property and working capital terms loans to the SMEs.

Kajal Gandhi : Can you throw light on your capital market lending book because in the current environment situation is not so good in that?

Kavi Arora : That's right and that's why if you look at from last 18 months this book has been coming down from ₹1,900 crores in total which is in capital market where retail book is about ₹1,400 crores loans against shares and the promoter finance book is hovering around ₹500 crores. We maintain that the book will largely remain where it is and we don't see this business really increasing from where it is and we continue to manage it tightly.

Kajal Gandhi : But then this must be very small period loans correct, so this book must be entirely churning in 3 to 6 months. So the set of hands must be changing quickly?

Kavi Arora : You are right. In the retail book it is shorter term while the promoter funding is up to about one year and to that effect you are right the overall volume we control to the level where we are and it would change some customers on the portfolio.

Kajal Gandhi : As you are looking for a banking licence and in that sense how it will be placed, you are planning to put this NBFC into that space?

Shachindra Nath : As I said in the opening remarks, we have applied for the conversion of our existing non-banking finance entity as a bank.

Kajal Gandhi : Because the holding company, Religare Enterprise is non-operational definitely but then it is listed. Whereas the guideline says that NOFHC should not be listed. Correct. So you will have to create one more layer in between this NBFC and your holding company?

Shachindra Nath : Yes, your understanding is absolutely right.

Moderator : The next question is from the line of Devesh Dokwal from Reliance Capital Asset Management, please go ahead.

Devesh Dokwal : Couple of questions: our corporate loan book had been steady at around ₹1800 to ₹1900 crores over the last few quarters. We have seen some increase there. So what is the guidance on this book?

Shachindra Nath : There is some short term increase which is there in the book. As we have stated that primarily we are rebalancing the portfolio wherein our book over all for the year would remain flat and this book is slowly getting wound down and this being redeployed in to SME asset financing. So on a quarter on quarter basis we expect this book to keep coming down and getting redeployed in to our SME and other portfolios.

Devesh Dokwal : So what could be the realistic number for March '14, I mean a broad range?

Shachindra Nath : It is very difficult to predict a number, but it should be substantially down from where it is today.

Devesh Dokwal : On the global asset management, where you were PAT positive for Q4FY13 and this quarter after minority interest there is some loss, so anything specific here?

Shachindra Nath : We don't have a specific answer and that should not be the case; there must be a new fund launch that might have happened at Landmark which would have some set of costs in terms of legal and set up cost which would have contributed to this.

Devesh Dokwal : Operating expenses have shot up substantially so is that getting clubbed there, the fund raising?

Shachindra Nath : That should be getting clubbed there. Yes.

Devesh Dokwal : This commodity thing which just broke out yesterday we have our presence in commodity business. So what would be our total exposure either direct or for our clients on NSEL?

Shachindra Nath : Basab, will you take that?

Basab Mitra : I think in the first instance we do not have any proprietary position at all. So that is zero**.** I think it is a stance that we have taken long time back that we believe that they had embedded risk in it and therefore we had warned our clients not to engage in this product. I think we have only about 18 or 19 clients with the total exposure of less than ₹4 crores on this. In fact we are one of the few brokers on the street who have stayed away from this product right from the beginning.

Devesh Dokwal : So we do not see any hit coming on our balance sheet due to this?

Basab Mitra : No.

Moderator : Thank you. The next question is from the line of Chandan Gehlot from Deutsche Asset Management (India) Pvt. Ltd, please go ahead.

Chandan Gehlot : My question is on the NBFC front - Just wanted to have some more colour on the asset quality in terms of the product wise because I remember in the Q3FY13 conference call you mentioned the asset quality is now more or less stable and about to near peak. So just wanted to know that few accounts got resolved but the new account pipeline keeps coming in so just wanted to have some more colour product wise.

Kavi Arora : See basically as I said, we had stopped acquiring commercial asset so it is a decline in book. So when you look at the market environment and obviously the good assets are running off naturally while in percentage term the increase comes in commercial assets, which is a typically declining in book. We know for everyone in the market transportation and infra assets are where the stress is building, which is uniform across the market. So that is obviously one of the areas. The other I said there are specific 2 or 3 geographies where we have seen some increase and again those are few accounts which will get resolved and we are working on them in Gujarat, in Bangalore and Delhi and in specific some of our SME lending as we said there is a little bit increase in 2 or 3 clusters which are around these geographies from industry stand point - auto ancillaries, computers and peripherals and telecom equipment. So it is really not an alarming trend and we continue to monitor tightly as I said we have seen some progress in resolving these accounts already during this quarter and as I have already mentioned in the call we would see this pulling back.

Chandan Gehlot : But can you specify further what course of action you have decided post the recent trend, I mean have you taken any additional step I know it is an ongoing process you are continuously monitoring the portfolio on ongoing basis. But have you taken any additional step post this trend?

Kavi Arora : Such as what?

Chandan Gehlot : In terms of collection efficiency or in terms of origination tightening.

Kavi Arora : It is really an ongoing process as you yourself mentioned. It is not an event and in any form we do not see a real negative event in the market which is triggering anything. We have been working on incoming volume and the kind of credit quality which we want to look at for over a year. That is what I mentioned when we saw the stress in assets deployed in mining and certain other infra side and commercial vehicles. The acquisition numbers have been very-very low in last 12 months and 14 months anyways. So that clearly shows on what we are doing on the acquisitions, similarly there is no one step, all this is ongoing, I think that is what we try to explain.

Chandan Gehlot : What was the disbursement number in the last quarter?

Kavi Arora : Last quarter was ₹887 crores.

Chandan Gehlot : Wanted to have more color: We had seen some decline in the net interest margin. So just wanted to know post RBI's steps taken to curb the volatility of the foreign exchange markets how do we read further into the cost of borrowing for Religare Finvest?

Kavi Arora : Two parts of the question if I understand one you are saying is little bit color on NIM has declined and the reason for that and how do we see cost of funds going? One thing you need to understand that NIM decline is largely reflected in this quarter for the assets which have moved off the balance sheet in last quarter last year, which is typically in March lot of securitization deals happen. So what happens is the interest income comes down while the spread from that comes in form of your other incomes and some of the higher yielding assets which have gone off the book and it is a combination therefore is about 14 bps decline. On specific to cost of funds I think that is one of the things that even Shachin mentioned in his opening remarks, for whole of last year we have been working on, in fact a little conservative way, we have gone long in our borrowings or today our dependency on short term funds is very negligible. We are completely immune to some of the change in the market because our overall short term borrowings book is just about ₹1,000 crores in our total ₹10,000 crores. So it does not really impact us in the immediate run. Having said that if the trends remain and if the increase in cost of funds starts moving to long term bucket I guess the NIMs largely you try and protect by moving the yields up in the market. But we do not see that trend immediately in next couple of months.

Chandan Gehlot : Lastly on the opex cost we have also seen some increase in the opex cost**.** Can you throw some more color?

Kavi Arora : That is exactly what I said. The assets which were there on balance sheet have moved off by securitization deal. So it is basically a decline in portfolios. The absolute expense number has not really moved up as much, it is just a factor of AUM versus net earning asset on the board.

Moderator : The next question is from the line of Arka Kundu from DSP Blackrock Mutual Fund. Please go ahead.

Arka Kundu : In the asset management piece what will be this one time employee related cost of ₹10 crores.

Shachindra Nath : This is as part of our transaction with Invesco we had some retention arrangement for the management team and which has gone and stays in a trust format which needs to be paid-off over a number of years to employees but it has passed through our P&L and this is a gross amount. The contribution is equal from both us and Invesco.

Moderator : Thank you. The next question is from the line of Nikhil Paranjape from ICICI Prudential Asset Management Co. Ltd. Please go ahead.

Nikhil Paranjape : Essentially my question is again from the NBFC business and wanted to understand the liquidity position. The presentation talks about cash and liquid investments of about ₹860 crores but if I see basically cash is around ₹300 crores and again mutual fund investments adding that it comes to about ₹350 crores. So just wanted to understand basically what is this balance liquid investment that you have?

Kavi Arora : Liquidity situation for us is fairly comfortable that is why we have not been challenged with the immediate changes in the market that are there in the short end of the term. Rashmi, you want to elaborate on some of the assets?

Rashmi Mohanty : We can discuss this numbers in detail off-line but in general just wanted to kind of make a statement that you are absolutely right as of the quarter we were carrying cash in our bank accounts, we had mutual funds investment that are fairly liquid and there was another liquid portfolio of certain corporate bonds that we were carrying at that point in time and there is an arbitrage book that we run as well and number includes a position that we were carrying in our arbitrage book as well. They are fairly liquid investments that we are carrying in our book which obviously adds to our liquidity position being comfortable.

Nikhil Paranjape : And also we have heard from some of the other NBFCs that they been actually from the unutilized bank lines they are drawing and putting into FD in case the tight liquidity conditions continue for few more months. So are you also kind of doing something like that or do you really see that liquidity conditions remaining tight would not effect?

Shachindra Nath : I do not think so we are doing that because I think that is a negative carry and at the moment we are not. In our assessment that is not required and we are not doing it.

Sunil Garg : In any case we are carrying the liquid portfolio investments and hence we do not see any immediate requirement of drawing undrawn limits and parking it into the liquid investments.

Nikhil Paranjape : Finally just some sense on the corporate loan book which has gone up basically what would be the broad ticket size because as I understand Religare Finvest had stopped doing very large ticket size loan since past few months. So what sort of additions has happened in this book?

Shachindra Nath : So these are very small additions which must have gone to existing customer. As I said that over a period of time we are trying to rebalance the portfolio wherein this loan book is running off and being redeployed into SME assets and this continues to be on the decline and by year end it should come down significantly. Now giving you specifics of corporate loan book in terms of this, no we do not calculate on an average ticket size basis. It is on the basis of the assessment of the counterparty and that is why it is being disbursed. But there are no major fresh disbursals happening into the corporate loan books.

Moderator : Thank you. As there are no further questions from the participants I would now like to hand the conference over to Mr. Shachindra Nath for closing comments. Please go ahead sir.

Shachindra Nath : Thank you very much for participating in this call. If you have any more queries please feel free to contact Kishore Belai our Head of Investor Relations. Thank you very much and have a good day.

Note : *This transcript has been edited to improve readability*